

Message Text

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PAGE 01 MELBOU 01128 310916Z

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TAGS BEXP, ENRG, ECON, AS

SUBJ: THE DEATH OF SOUTH AUSTRALIA'S REDCLIFF PROJECT - PERHAPS FINAL

REF: MELBOURNE 0386 AND PREVIOUS

1. SUMMARY: IN A JULY 16 JOINT PRESS STATEMENT, THE MINISTER OF MINES AND ENERGY FOR THE SOUTH AUSTRALIAN GOVT AND A SPOKESMAN FOR THE REDCLIFF PETROCHEMICAL CONSORTIUM ANNOUNCED THAT IT WAS NO LONGER FEASIBLE TO BUILD A PETROCHEMICAL COMPLEX BASED ON COOPER BASIN NATURAL GAS. WITH THIS SHORT, ONE PAGE ANNOUNCEMENT, A MONUMENTAL PETROCHEMICAL PROJECT HAS TORTUROUSLY DESCENDED FROM THE HEIGHTS OF EXPECTATION TO THE NADIR OF EXTINCTION WITHIN THREE YEARS. ITS DEATH, AT LEAST IN ITS PRESENT FORM APPEARS TO BE FINAL. END SUMMARY.

2. ON JULY 16 A JOINT PRESS STATEMENT WAS ISSUED BY HUGH HUDSON, THE NEW MINISTER OF MINES AND ENERGY OF THE SOUTH AUSTRALIAN GOVT, AND A REPRESENTATIVE OF THE REDCLIFF PETROCHEMICAL CONSORTIUM - ALCOA OF AUSTRALIA, ICI AUSTRALIA AND MITSUBISHI CORPORATION- ANNOUNCING THAT THE PETROCHEMICAL
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PAGE 02 MELBOU 01128 310916Z

PROJECT, BASED ON NATURAL GAS FROM THE COOPER BASIN, AS NO

LONGER CONSIDERED TO BE FEASIBLE BECAUSE OF INFLATING COST FACTORS WHICH HAD PUSHED THE ORIGINAL ESTIMATED COST FROM A\$300 MILLION TO WELL OVER A1,200 MILLION. THESE, PLUS CONTINUALLY INFLATING OPERATING COSTS, HIGH CAPITAL SERVICING COST, COUPLED WITH ECONOMIC DISADVANTAGES COMPARED TO OVERSEAS COMPETITION, MADE THE END PRODUCT NONCOMPETITIVE.

3. FOR SOME TIME AFTER THE ANNOUNCEMENT WAS MADE NEGOTIATIONS CONTINUED BETWEEN ADELAIDE AND CANBERRA ON OTHER ASPECTS OF THE PROJECT WHICH WOULD ALLOW IT TO CONTINUE IN A SOMEWHAT MODIFIED FORM. HOWEVER, THE CONTINUED INTRANSIGENCE OF REX CONNOR, THE FEDERAL MINISTER FOR MINERALS AND ENERGY, PREVENTED ANY COMPROMISE. LATER ANNOUNCEMENTS INDICATED THAT NEW STUDIES WOULD BE MADE TO CONSIDER MODIFICATIONS OR ALTERNATIVE SITES WHICH MIGHT ALLOW THE PROJECT'S RESURGENCE.

4. COMMENT: THERE NEVER HAS BEEN ANY DOUBT THAT THE MAIN CAUSE OF ALL THE PROBLEMS IN THIS PROJECT WAS REX CONNOR. ALTHOUGH INITIAL PLANS WERE FAIRLY WELL ALONG BY THE TIME CONNOR TOOK OFFICE IN DECEMBER 1972, IT HAS BEEN DOWNHILL ALL THE WAY SINCE, BECAUSE OF CONDITIONS IMPOSED BY HIM. IT WAS EXPECTED THAT CONNOR'S INSISTENCE ON 51 PER CENT AUSTRALIAN EQUITY WOULD BE MET, BUT HIS BAN ON THE EXPORT OF LPG AND DEMAND THAT THE LPG BE ALKYLATED INTO GASOLINE HAVE REMAINED SERIOUS OBSTACLES, DESPITE WIDESPREAD CRITICISM FROM THE MEDIA, PROFESSIONAL ORGANIZATIONS AND THE INDUSTRY ITSELF. THE CONSORTIUM ITSELF WAS NEVER A STRONGLY UNITED FORCE BECAUSE ALCOA DID NOT HAVE ITS HEART IN THE PROJECT FROM THE BEGINNING. THE COMPANY RELUCTANTLY SEVERED PURCHASES OF CAUSTIC SODA AND CHLORINE NEEDED IN ITS ALUMINA PROCESSES FROM DOW, AND NOW FACES A PROBLEM IN RENEGOTIATING THESE SUPPLIES. MITSUBISHI'S ROLE WAS ALWAYS HAZY AND ONLY ICI, RUMOURED TO BE IN THE PROJECT JUST TO FRUSTRATE IT IN FAVOR OF THE WEST AUSTRALIAN PILBARA SCHEME, PLAYED A DOMINANT ROLE IN THE GROUP.

5. DOW, WHICH ORIGINALLY HAD THE INSIDE TRACK ON THE PROJECT AS FAR AS THE SOUTH AUSTRALIAN GOVT WAS CONCERNED, SO DEEPLY RESENTED CONNOR'S EARLIER BLOCKING ACTION WHICH BROUGHT LIMITED OFFICIAL USE

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PAGE 03 MELBOU 01128 310916Z

THE CONSORTIUM IN, THAT IT VOWED NEVER TO RETURN UNLESS INVITED TO DO SO BY BOTH CONNOR AND THE STATE GOVT. THEREFORE, EVEN THEIR ROLE WAS NOT REACTIVATED WHEN THE CONSORTIUM PULLED OUT, SINCE CONNOR APPARENTLY WOULD NOT DO THE NECESSARY INVITING.

6. DURING THE LAST FORTNIGHT, WHEN CONTINUAL NEGOTIATIONS WERE IN PROGRESS IN ORDER TO SALVAGE THE

PROJECT, IT WAS HOPED THAT HUDSON, THE NEW SOUTH AUSTRALIAN MINISTER, WITH A REPUTATION FOR BEING TOUGH, WOULD BEST CONNOR AT HIS OWN GAME, PARTICULARLY IN VIEW OF THE POLITICAL SETBACKS RECEIVED BY THE WHITLAM GOVT DURING THE PAST FEW MONTHS. HOWEVER, FOR REASONS YET UNKNOWN, HUDSON DID NOT QUOTE BELL THE STRANGLER UNQTE AND IT APPEARS THAT ONCE AGAIN REX CONNOR HAS HAD HIS OWN WAY. IT WAS THOUGHT THAT HUDSON'S NEW APPROACH, PLUS CONNOR'S REALIZATION THAT HIS ORGANIZATION MADE A POOR DEAL BY ITS RECENT PURCHASE OF PART OF THE DELHI PETROLEUM COMPANY'S INTERESTS IN THE COOPER BASIN, WOULD MAKE HIM REALIZE THAT A REVERSAL OF HIS LPG DICTA MADE COMMERCIAL SENSE TO ALL CONCERNED. HOWEVER, NO CHANGES WERE MADE AND THE GRAND SCHEME FOR REDCLIFF, POTENTIALLY AN EXTREMELY VALUABLE ADDITION TO THE SOUTH AUSTRALIAN ECONOMY, HAS TAKEN ITS PLACE BESIDE OTHER PROGRAMS SHATTERED BY THE MISMANAGEMENT OF THE CANBERRA GOVT.

7. DESPITE THE ABOVE, THERE REMAINS ONE LAST, AND VERY IMPORTANT FACTOR WHICH MIGHT BE THE KEY TO THE RESURRECTION OF REDCLIFF, AND THAT IS THE QUESTION OF THE UNUSED ETHANE. IN ORDER TO SUPPLY SYDNEY WITH METHANE GAS UNDER THE AGL CONTRACT, DELHI/SANTOS MUST ALSO PRODUCE ETHANE; BUT UNLESS THE ETHANE IS USED COMMERCIALY, AS WAS ENVISAGED IN REDCLIFF, IT WILL HAVE TO BE BURNED. IT IS INCONCEIVABLE THAT EVEN THE MOST TROGLODYTIC MINISTER WOULD ALLOW THIS TO HAPPEN, BUT DESPITE THE FACT THAT THIS POINT HAS BEEN APPARENT THROUGHOUT ALL OF THE PROCEEDINGS, IT MIGHT ACTUALLY TAKE A BURNING AND A PUBLIC OUTCRY BEFORE IT REGISTERS WITH REX CONNOR. THEN, PERHAPS, THE PRESSURES OF ECONOMIC REALITY WILL FORCE POLITICAL NATIONALISM ASIDE, UNLESS, OF COURSE, THERE IS A CHANGE IN GOVT BEFOREHAND.

8. AS THIS TELEGRAM WAS IN THE PROCESS OF TRANSMISSION,
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PAGE 04 MELBOU 01128 310916Z

A LATE MEDIA REPORT RUMOURS THE PENDING REPLACEMENT OF CONNOR AS MINISTER BY SENATOR KEN WRIEDT OF TASMANIA. IF TRUE, THEN THERE MIGHT BE A WHOLE NEW BALL GAME.
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